

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Competitive Product Prices
Priority Mail
Priority Mail Contract 226

Docket No. MC2016-153

Competitive Product Prices
Priority Mail Contract 226 (MC2016-153)
Negotiated Service Agreement

Docket No. CP2016-216

PUBLIC REPRESENTATIVE COMMENTS ON
POSTAL SERVICE REQUEST TO ADD
PRIORITY MAIL CONTRACT 226 TO
COMPETITIVE PRODUCT LIST

(June 27, 2016)

The Public Representative hereby provides comments pursuant to the Commission's Notice Initiating Dockets.¹ In that Order, the Commission established the above referenced docket to receive comments from interested persons, including the undersigned Public Representative, on a Postal Service Request to add Priority Mail Contract 226 to the competitive product list.²

The Postal Service's Request includes a Statement of Supporting Justification, a certification of compliance with 39 U.S.C. § 3633(a), a public (redacted) version of Governor's Decision No. 11-6 and related analysis, a public version of Priority Mail shipping services Contract 226, and proposed changes to the Mail Classification Schedule competitive product list with the additions underlined. The Postal Service also

¹ Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, June 20, 2016 (Notice).

² Request of the United States Postal Service to Add Priority Mail Contract 226 to the Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, June 17, 2016 (Request).

filed under seal an unredacted version of Governor's Decision No. 11-6 and Contract 226, and supporting financial data estimating the contract value during the first year.

According to the Postal Service, Priority Mail Contract 226 is a competitive product featuring rates "not of general applicability" within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. The Postal Service also maintains that the prices and classification changes applicable to Contract 226 are supported by Governors' Decision No. 11-6.³ The Postal Service further asserts that the Statement of Supporting Justification (Statement) provides support for adding Contract 226 to the competitive product list and the compliance of the instant contract with 39 U.S.C. § 3633(a). Request at 2.

The effective date for Contract 226 is 2 business days following the day on which the Commission issues all necessary regulatory approvals. *Id.*, Attachment B at 3 (Article II). The contract will expire 3 years from the effective date unless either party terminates the contract on 30 days' prior written notification, or other specific events. *Id.*, Attachment B at 3 (Article III).

COMMENTS

Requirements of 39 U.S.C. § 3633. Pursuant to 39 U.S.C. § 3633(a), the Postal Service's competitive prices must not result in the subsidization of competitive products by market dominant products; ensure that each competitive product will cover its attributable costs; and, ensure that all competitive products collectively contribute an appropriate share of the institutional costs of the Postal Service.

The Public Representative has reviewed the Postal Service's Request, the Statement of Supporting Justification, as well as Contract 226 and the financial data filed under seal with the Postal Service's Request. During the review, the Public Representative noted that the FY2015 Partner Profile Adjusted Attributable Cost is slightly higher than the Revenue per Piece, resulting in cost coverage under 100

³ Decision of the Governors of the United States Postal Service on Establishment of Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors' Decision No. 11-6).

percent. However, the *Contract Year* Partner Profile Adjusted Cost per Piece is less than the Revenue per Piece, resulting in full cost coverage. Although the Public Representative agrees that this contract should generate sufficient revenues to cover costs and thereby satisfy 39 U.S.C. § 3633(a), it is important to note the insufficient cost coverage in the FY 2015 Adjusted Profile.

Aside from the observation explained above, the review found that the remainder of the financial data filed under seal supports the Postal Services assertion that Contract 226 should generate sufficient revenues to cover costs during the first year of the contract and therefore meet the requirements of 39 U.S.C. § 3633(a). In addition, while Contract 226 is expected to remain in effect for a period of 3 years, during this period, the contract contains a mechanism for the upward annual adjustment of prices.

Product List Assignment. Pursuant to 39 U.S.C. § 3642, the Postal Service requests that Priority Mail Contract 226 be added to the competitive product list. 39 U.S.C. § 3642 requires the Commission to consider whether “the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products.” 39 U.S.C. § 3642(b)(1). Products over which the Postal Service exercises such power are categorized as market dominant while all others are categorized as competitive.

The Postal Service’s Statement of Supporting Justification (Statement) makes a number of assertions that address the considerations of section 3642(b)(1). Request, Attachment D at 2. These assertions appear reasonable. Based upon the Statement, the Public Representative concludes that the Postal Service’s Request to add Priority Mail Contract 226 to the competitive product list is appropriate.

Finally, the Postal Service must file revenue and cost data for Contract 226 in future Annual Compliance Reports. This data will permit the Commission to annually review the financial results for Priority Mail Contract 226 in a future Annual Compliance Determination (ACD) report for compliance with 39 U.S.C. § 3633(a).

The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

Jennaca D. Upperman
Public Representative

901 New York Ave. NW
Washington, DC 20268-0001
202-789-6898
jennaca.upperman@prc.gov